



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

INSURANCE FOR WORKING-MEN.

BY FRANK A. VANDERLIP.

EVERY business man recognizes the changes which have been going on in industrial life in the last generation. There have been tendencies toward specialization and concentration. There has been a remarkable application of mechanical aids. We have been working toward production on a vast scale. This has created an industrial army the rank and file of which tend more and more toward becoming mere automatic wheels in the great industrial organization. The new industrial order has made a new social order. There is to-day no such thing as industrial independence possible for a working-man. He must become subject to regulations in common with his fellows, and work in harmony with the new industrial conditions.

So long as the individual can actively fill his place in this new order of affairs, his condition shows great improvement in many respects. The moment he gets out of harmony with the whirl of the industrial machine, however, the moment that sickness overtakes him or accident injures him or old age reduces his power to keep in step with the industrial march, his condition is likely to become incomparably more unfortunate than would have been the case under similar circumstances in earlier times.

All business men recognize clearly enough a changed order of affairs in industrial and commercial life. They know that they must shape their business methods so as to harmonize with the new order of things. They know that they must cooperate in many ways with their fellows, must share with them their risks, must help to sustain them in their misfortunes. They know that they have lost in the new order of things a certain amount of independence. It ought not to be difficult, then, for them to see that their employees are also in the midst of a changed condition,

and that principles which apply to the relations between the State and citizens have been undergoing change. I believe that the reason why manufacturers are interested in the subject of working-men's pensions is to be found in the fundamental change which has been going on in industrial affairs. Their interest logically follows the evolution of economic laws; and, if we are to seek for a secure foundation upon which to rest judgment in regard to this question of working-men's pensions, we will find it in an analysis of economic conditions rather than in sentimental consideration or charitable ebullition.

Nations older than we are came earlier to a consideration of this subject. The place where the greatest progress has been made in an experiment in working-men's pensions is Germany. The German system of working-men's insurance is the most important experiment in progress in the world, in the way of a government-aided sociological institution. The importance of it is hardly understood in America, nor is its extent realized. It pervades every phase of the industrial field. Twenty millions of Germany's fifty-six millions of population are eligible to these benefits; and the cost of administration falls alike on these beneficiaries and upon all other citizens of the Empire. The total receipts, from its organization up to the end of this year, will have aggregated almost \$2,000,000,000. The receipts this year will approximate \$150,000,000. A satisfactory feature of the German state insurance system is that the benefits paid out correspond very closely with the premiums paid in. The expense of administration, considering the enormous number of individuals concerned and the fact that weekly contributions are collected from employees, is surprisingly small. It averages under nine per cent.

There are three great divisions of working-men's insurance in Germany. These are insurance against sickness, against accident and against want in old age. The fund for insurance against sickness is provided in the main by the employees; the employers contribute, roughly, one-third and the workmen two-thirds. Employers are charged with the entire burden of maintaining the accident insurance fund; while the fund for old-age insurance is contributed to equally by employers and employees, and is augmented by a subsidy from the Government, which is nearly equal to the total expense of administering the whole system.

It is quite impossible to enter into a detailed explanation of the German system of working-men's insurance. I know of no other problem of administration where the details are so complicated. Not only are there three distinct systems of insurance, but there are complications of Government participation in the funds and of a division of the authority of administration between Government officials and some twenty-five thousand local organizations. Whatever view one might hold in regard to the benefits of the system, there could be no difference of opinion in regard to this method of administration. It is certainly too complicated to transplant to any other country.

The principles underlying the theory of German workmen's insurance might be briefly summarized in this way: The German nation was, in a few years, transformed from an agricultural country into an industrial State. An evolution at the same time was in progress in the field of industry, which resulted in the highest specialization of work and the greatest development of the factory system. These all combined to create a practically new social order of things, and necessitated an enunciation of new principles in regard to the duty of the community toward the individual. These principles are fundamental in character and novel in political life. The Germans argue that, no matter how free they may be politically, they cannot possibly be economically independent because of the intricate and complicated modern system of industry. The individual in spite of himself becomes a part of the industrial order and is so placed that it is difficult, if not impossible, for him to extricate himself from his misfortune should he be overtaken by accident or sickness, or should he reach a dependent old age. In the new industrial order, the liability to accident is greatly increased, and that in itself demands new means for meeting such a condition.

The development of the working-men's insurance idea in Europe has been, in large measure, the logical result of efforts to reform the law relating to the liability of employers for accidents to their employees. Under the old law, the employer was responsible only for accidents which resulted directly from his fault or the fault of his agents, and he bore the consequence only after the injured employee succeeded in legally establishing the proof of that fault. Europe has seen more plainly than we have the injustice of such a condition.

When such legal principles were evolved, establishments were small, the employer was in intimate relation with the employee, and it was comparatively easy to determine the responsibility. With the growth of large-scale production and the introduction of complicated and dangerous machinery, the whole system became so complex that it was extremely difficult to trace responsibility. The result was that, as a rule, the full weight of suffering from an accident fell upon the injured employee. Here in America we have gone even further. We have perfected organizations for insuring, not the employee against accident, but the employer against liability. These organizations are not to indemnify the injured, but rather to indemnify the employer for the costs of fighting in the courts the claims of the injured. No doubt, employers have not been without reason for wishing such indemnification. There are professional damage-hunters, and lawyers who might better be in jail than in court. There are juries which have determined verdicts on the consideration whether or not the defendant was a corporation, rather than upon the facts presented to them; but even these evils do not warrant the manner in which we throw the burden of accidents upon the injured.

Accident insurance, as developed in Germany, has been something more than merely the providing of an indemnity. It has been, in fact, an insurance against accidents. This definite placing of the responsibility for accidents has led to much study by employers and employees of regulations providing for safeguards. Such study has accomplished remarkable results in the reduction of the number of accidents, and has become a great economic factor in removing the danger from the industrial calling. Under the influence of this study, the frequency of accidents has been reduced one-half. Viewed from an economic standpoint alone, the saving which has resulted in the national economy has been a vast sum. We are strikingly careless of life in America. The statistics of railway injuries and fatalities are a disgrace. In the rush of our industrial expansion we have neglected to provide many of the obviously necessary safeguards. From whatever aspect we may regard the subject, we will, on any broad view of it, find that the adoption of some of the European regulations and safeguards will be of great national advantage.

The second division of the German insurance system, and the one that seems to have most fully demonstrated its value, is the

sick insurance fund. Apart from the more obviously advantageous features of this sick insurance system, there are others which are of the highest economic importance and well worth emphasizing. The system is having a profound effect on the whole physical welfare of the German nation. The general level of vitality, and hence of working capacity, is being distinctly raised as a result of it. The activities in the sick insurance field are not confined to the mere payment of the indemnity during a period of illness. The sick insurance not only makes it possible for a workman who is ill to take at once the necessary time for recovery, but it provides him with the best medical attention while he is ill; and, while in health, it gives hygienic supervision and instruction which are of the greatest value in preventing sickness. Under the operation of this system, there is being spent, in the most intelligent manner, something like \$50,000,000 a year in the treatment and care of the sick.

The testimony in regard to the value of the work done in the sick insurance system is almost universally favorable. It would be hard to calculate its economic importance, but it is so great that it has become one of the leading factors in helping Germany to the industrial preeminence which she is gaining.

There is undoubtedly, here and there, ground for criticism. Lazy patients occasionally sham illness. There are workmen who would rather lie in bed with a small income than work for a larger one. But the principal effect of this sick insurance is of economic value in the industrial development of the German Empire out of all proportion to the burden which is laid upon employers.

The first two divisions of the German insurance scheme, providing for indemnities against accident and sickness, must commend themselves to every investigator of the subject.

There is now left to consider the third division, the German old-age pension system, which is the least important and the most criticised feature of the German workmen's insurance institution. The contributions which it calls for are very small, and the final pension provision is generally regarded by the workmen as entirely inadequate. Although the employers contribute an amount equal to that contributed by the workmen, and the Government finally adds a considerable subsidy, there still is less general satisfaction among the workmen with this division of the insurance scheme than with the others. The reason for that lies,

in a measure, in the perversities of human nature. The contributions, small as they are, are collected every week, and are a constant reminder to youth of a sacrifice being made for problematical benefits a long way in the future. The benefits of the accident and sick insurance are more directly at hand. The workmen themselves are more intimately related to the administration of the first two funds.

There is a pretty general demand for an increase of the old-age pension. When it is remembered that the contributions from the men range from 6 to 15 cents a week, and that these payments return an annual pension after seventy years of age of \$27.50 to \$60, it is easily recognized that there is ground for complaint as to the smallness of the amount. There is a general demand among the workmen for a reduction in the age limit. Sixty-five years is considered a desirable time for the pension to begin, rather than seventy.

One incidental feature of the administration of the German system which is proving of very great value is the way in which the sick and accident funds are administered by committees made up of employers and working-men. Employers and workmen come together on common ground. They are working toward common ends. With the responsibility of administration on their shoulders, radical Socialists become conservative. With the broader view which close association with employees brings, the employers are benefited. The fact that, in the twenty-five thousand administrative organizations, workmen and employers have been brought together to give harmonious consideration to the means for accomplishing a common end is proving of immense importance in maintaining pleasant relations between capital and labor.

As the German system of working-men's insurance is the most important experiment of the sort in the world, I have been at some pains to ascertain at first hand just what German manufacturers and men of affairs think about it, feeling that it would be interesting to business men to know what is thought of this institution by German employers. With that in view, I addressed a series of questions to a considerable number of the most prominent manufacturers and other representative men in Germany; and from the replies which I have received, it is clear that, in the main, the views held are distinctly favorable to the institution,

although in the details of its administration there is found ground for criticism. The idea seems to be general that the system works for patriotic loyalty to the Government on the part of the working people. The earlier idea of the State in the workmen's mind was based largely on the policeman, the sheriff and the tax-gatherer. The State always took something. Now a person who watches a post-office money-order department on the first of the month, sees the people drawing their insurance money. For the first time the workman looks upon the State as a giver. More than a million marks a day are paid out to them in this way; and the result, in the way of developing patriotic regard for the Government, is excellent.

None of my correspondents claimed that the effect has been to make the workman contented. The Empire is new. Germany's industrial prominence is new. One cannot separate the effect of this insurance and say that certain good results are due to it alone. That the workman is not content must be admitted, nor is the man who makes a million contented. The workman has had this new set of rights and privileges given to him, and his eyes are opened to the possibilities of more rights and greater privileges. His discontent, however, is due not to faults of the pension system, but rather to a desire for an extension of its benefits.

The system is thought to have a good influence in preventing a tendency toward Socialism. Most of the workmen who are members of the administrative committees are Social Democrats. My correspondents state that it is simply wonderful to see how the most radical political shouters quiet down when they find themselves members of a committee discussing grave matters and charged with the responsibility of important decisions.

I asked my German friends their opinion as to whether or not it would be advantageous for America to adopt a working-men's pension scheme. Their replies to that question are illuminating. This is what the manager of one of the greatest German industries said:

"I think the general opinion in Germany is that in America the creation of large funds under Government control would cause great temptation for their misappropriation. Their collection and distribution would be too dependent upon politics. This opinion seems largely justified in view of the instances of maladministration that so many of your Government Departments have recently furnished. The German opinion is that the American citizen is as yet too individual in his honesty

and efficiency. Collectively, as exhibited in the government of your municipalities and of the State, you seem to us weak in economical and effective business management and financial integrity."

This is not a pleasant criticism, but there is more justice in it than we might wish.

Another correspondent, eminent in both industrial and public life in Germany, says:

"The German nation believes that it can conscientiously recommend the introduction of the system of workmen's insurance into other countries; but, so far as the United States is concerned, such a system does not seem as great a necessity as in other countries. Wages are higher in America and the workmen better capable of providing for the future. There is no doubt that the introduction of compulsory insurance would produce a social line of demarkation between those who are obliged to submit to the law and those who are exempt, and we doubt if the people of America would look upon such a social classification with favor. It cannot be denied that, with the German system, there is a certain amount of tutelage which the American workman, in consequence of his independence, would bitterly resent. Should the system ever be introduced, I do not believe it would be wise to entrust it to the various States. It will be more beneficial if brought under the control of the Federal Government."

In every Continental country, the political questions which occupy the foremost position in parliamentary consideration are measures designed to improve the condition of the laboring population. We are apt to think of ourselves as a republic more swayed by the democratic voice of the people than are other nations. It strikes an American as curious to find that, in monarchical Europe, Governments everywhere are paying the closest heed to the public will. This, of course, is true in small measure in Russia; but in France, Germany, Belgium, Italy and Holland particularly, and in Austria-Hungary and Spain to a less degree, the foremost subjects of legislation are concerned with questions of improving the condition of the laboring people.

With the exception of the United States, all the great Powers of the civilized world pension their civil servants.

The question of civil pensions in the United States is one which deserves serious consideration. The full working out of the merit system in civil service can never be accomplished until we recognize the principle of a pension for superannuated Government employees. There is no other important nation which has not recognized that principle. It is doubtful if there

are any men who have ever been charged with the responsibility of an appointive office in the Government service who have not come to recognize that need, and who have not been won over to the belief that it would be an economy in Government administration if a proper system of civil pensions were devised.

When we turn from the foreign field to what has actually been accomplished in the way of old-age pensions in this country, there will be found much that is interesting. A careful canvass has been made of railroads and large business corporations in America to ascertain the number of such corporations which have been led to adopt some sort of old-age pensions. To an inquiry reaching nearly two thousand corporations, replies show that seventy have adopted some plan for retiring and providing for employees during old age. Without a single exception the corporations which have adopted such a plan expressed the opinion, after having had an opportunity to note its effects, that it is a wise business practice. Among the corporations having a pension system are some of the most important in the United States. Some four hundred companies replied that they had the matter under serious consideration, and that they were convinced that the principle was sound from a business view-point.

More than thirty years ago, the Grand Trunk Railway of Canada adopted a pension system which has been growing in importance and has continually given good reason for commendation from both the officials and the employees. Fifteen years ago, the Baltimore and Ohio followed suit. In 1900, the Pennsylvania Railroad and the First National Bank of Chicago formulated pension systems; and the following year the Pennsylvania Lines West of Pittsburg and the Illinois Central adopted pension plans. In 1902, the Andrew Carnegie Relief Fund, with its \$4,000,000 benefaction, was organized; and half a dozen important railroads, including the Southern Pacific, the Chicago and Northwestern and Canadian Pacific, became convinced that the scheme was wise.

The most notable step which has been taken in America was accomplished this year by the great Carnegie benefaction of \$10,000,000, for providing pensions for college professors. This act of America's Great Philanthropist has received more approval than any other of his vast benefactions, and it promises a marked and beneficial effect on our system of higher education.

As a rule, those American corporations which have adopted the old-age pension system have treated the matter in the light of deferred wages, the corporations bearing the entire expense of the pension requirements. The method of the Pennsylvania Railroad is typical of this form.

In a word, the Pennsylvania Railroad retires upon a pension all officers and employees compulsorily at the age of seventy, and it may retire them between the ages of sixty-five and seventy, provided they have been thirty years in the service.

The amount of the pension varies with the years of service, and with the average monthly pay for ten years preceding retirement. The average monthly pay for the ten years is the basis and the pension is one per cent. of that amount for each year of service. The Company reserves the right to alter this basis whenever the allowance made under it shall demand an annual expenditure in excess of \$390,000.

When the Pennsylvania officials were examining the subject, they found that nearly every important railroad system in the world, outside of America, had provided in some form for the retirement of old employees. The basis of the plans adopted by all the foreign corporations and governments contemplated contributions on the part of the men. That was not in accordance with the ideas of the Pennsylvania officials. In that case, the Company wished to assume all the expense involved; and, in that respect, the practice of the Pennsylvania Company and of most other American corporations is at variance with the accepted practice elsewhere in the world. Another method, of which a typical example is that of the First National Bank of Chicago, provides for contributions to the pension fund by both employer and employee.

In respect to the age of retirement, there is a fair amount of unanimity in all plans. The majority of the schemes fix the age at sixty-five. A number of them, the Pennsylvania Railroad being an example, give some play to the judgment of employing officers so far as the retention of employees between the ages of sixty-five and seventy is concerned. The Carnegie Company retires men at the age of sixty and the Grand Trunk Railway of Canada at the age of fifty-five.

As a general rule, in the plans thus far adopted in this country, specified length of service is required as a condition precedent

to obtaining a pension. The Canadian Pacific, Illinois Central and Baltimore and Ohio Railroads have fixed that term of service at ten years. The Carnegie Company and the First National Bank of Chicago fixed it at fifteen. The Southern Pacific and its allied lines make it twenty years, while the Pennsylvania Railroad and a number of Eastern roads make it necessary for an employee to have been thirty years in their service. On the other hand, the Philadelphia and Reading has adopted a very broad plan. On that railroad, any faithful employee, irrespective of age or of length of service, who is injured in the performance of duty, or becomes incapacitated through sickness, may be awarded such a pension as the president of the company determines.

Practically without exception those American railroads which have adopted the pension system provide the entire fund out of which pension allowances are paid. The Grand Trunk Railway requires a contribution of two-and-a-half per cent. of the monthly wages. The First National Bank of Chicago requires a contribution of three per cent. While the employee contributes to the fund, provision is always made for the return of his payments in case he severs his connection with the service.

The reasons why institutions in the United States are beginning to adopt old-age pension schemes, embrace such considerations as these:

The pension attaches the employee to the service, and thus decreases the liability to strike. It makes more certain a continuance of efficient men in the lines of work with which they are perfectly familiar. Of quite as much importance is the fact that a pension system enables employers to dispense with the elderly and inefficient, and thus gives constant encouragement to good effort on the part of younger men hoping for promotion. When employees realize that unsatisfactory conduct may at any time lose them, not only their present positions,—a loss which, in such a labor-market as ours, might be easily made good,—but that it entails further the loss of a very valuable asset, the employee's right to a pension, the incentive to good conduct is greatly increased. It operates especially as a means to retain men between the ages of forty and fifty, when they have acquired the experience and skill which make them specially valuable, and prevents their being tempted away by slightly increased wages for a temporary period.

Those business institutions which have adopted the old-age pension scheme have not done so from sentimental considerations, but rather from considerations of economy and efficiency of administration. They have found that, when provision is made for those who are too old to render efficient service, every man who recognizes that at some time he may become eligible to such benefits will be under strong inducements for good behavior. In financial institutions particularly, if men are removed from anxiety for the future, they are much more apt to devote their best efforts exclusively to their careers, and to be in less danger of diverting their energies into side channels of money-making—which may easily lead them on to dangerous ground.

No one can doubt that there is weight in these reasons. On the other hand, they certainly do not in themselves lead to the conclusion that we are ready for a compulsory system of old-age pensions which should be under the Government's supervision. With such study as I have been able to give to the subject, I could not, at the present time, go further than to say that it is eminently one for careful painstaking study. I do not believe the German system could be transplanted here in anything like its entirety. I am, however, perfectly confident that those features of the German system pertaining to sick and accident insurance are of enormous value to the national economy, and are producing results out of all proportion to their cost.

That there is to be development of the industrial pension idea is as inevitable as the laws of economic progress. Whether that development should be directed by the Government, or whether it can best find expression through the individual action of corporations, I am not prepared to offer an opinion. But it is beyond question that the matter is worthy of thorough scientific study. There is a scarcity of literature in English on the subject, and what has been printed is now mainly in the form of scattered articles and buried reports.

A commission which would give the subject a thorough investigation and would put the results of that investigation into such shape that we could grasp the significance of what has been done, would be of great value.

FRANK A. VANDERLIP.